Australian Bureau of Statistics

2005–06

5678.0

VENTURE CAPITAL AND LATER STAGE PRIVATE EQUITY

AUSTRALIA

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CONTENTS

INQUIRIES

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INTRODUCTION

Venture capital and later stage private equity is high risk capital directed towards businesses with prospects of rapid growth and/or high rates of returns. It is an investment not only of money, but also of skills and time. This publication presents information on both financial and non-financial contributions to venture capital and later stage private equity investments.

Australian Bureau of Statistics (ABS) undertook the first survey of venture capital for the period 1999–2000 and has since undertaken this survey annually at the request of, and with the financial support of, the Department of Industry, Tourism and Resources. The scope of the 2005-06 survey was defined to formally include later stage private equity investments, as well as venture capital.

ABS have conducted all surveys with the advice and assistance of users, industry bodies and data providers.

ABOUT THIS ISSUE

This is the sixth annual release of ABS catalogue no. 5678.0. This issue presents the results of the 2005–06 Venture Capital and Later Stage Private Equity Survey and compares results with the 1999–2000 to 2004–05 surveys.

CHANGES IN THIS ISSUE

A review of the Venture Capital Survey in 2006 examined the scope of the survey, clarified the definition of venture capital and reviewed user requirements. The review found that definitions of venture capital varied across users and data providers and, in particular, the distinction between venture capital and later stage private equity was unclear. The review confirmed that previously published results from the Venture Capital Survey included later stage private equity and this was made explicit by renaming both the survey and this publication. Despite the name change, the results from the 2005–06 survey are directly comparable to results from the previous surveys. The review also resulted in the collection of additional information, some of which is included in this issue.

The numbering of tables in both this issue and the associated time series files has changed from the previous issue. However, all available historical data can be obtained from the time series files associated with this issue.

The presentation of source of funds of investment vehicles (table 1) has changed to separately identify funds invested through fund of funds as a memorandum item. This change has been made to all years.

Susan Linacre
Acting Australian Statistician

TIME SERIES DATA

TABLES AVAILABLE AS DATA CUBES

Data available free on the ABS web site <http://www.abs.gov.au> include longer time series of tables in this publication back to 1999–2000 and additional data cubes below:

Vehicles

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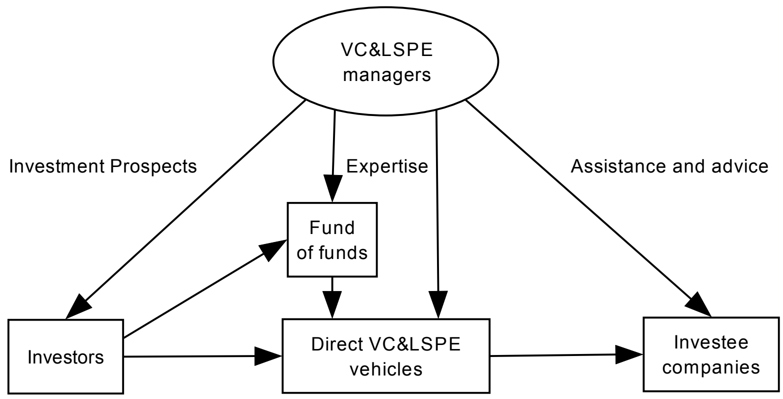
SUMMARY OF FINDINGS

OVERVIEW

Investors in Venture Capital and Later Stage Private Equity (VC&LSPE) are generally sophisticated individual investors or organisations such as pension (superannuation) funds. Investors invest in VC&LSPE vehicles which are mainly organised in the form of either trust funds or corporations. There are two types of vehicles: those that generally invest directly in investee companies, and those who pool funds and generally invest through the direct investment vehicles. The latter are called fund of funds.

The investment decisions of the vehicles are made by a VC&LSPE manager, who is generally a skilled business person and financial analyst. The VC&LSPE manager provides assistance and advice to the investee companies.

The usual relationship between the investors, managers, vehicles and investee companies is shown below:



While this represents the usual relationship, variation can occur e.g. some fund of funds may co-invest with another fund manager.

KEY FIGURES 2005–06

There was growth in funds committed to VC&LSPE investment vehicles during 2005–06. As at 30 June 2006, investors had $10.9b committed to investment vehicles, an increase of 9% on the $10.0b committed as at 30 June 2005. Investors had $6.8b of committed funds drawn down at 30 June 2006, an increase of 25% on the previous year end ($5.5b at June 2005). Most of the committed funds were sourced domestically, with 94% of commitments from Australian investors (up slightly on June 2005).

As at 30 June 2006, there was $4.1b of committed funds yet to be called on, down 11% on the $4.6b of unused (undrawn) commitments as at June 2005. The $4.1b of undrawn commitments can be classified by preferred stage of investment, with only $0.7b undrawn by funds which prefer to invest at the early stage.

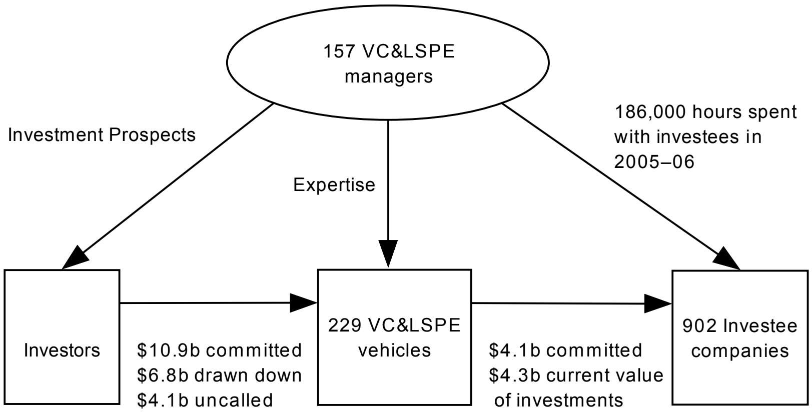
The value of investments by VC&LSPE investment vehicles ($4.3b in 902 investee companies) increased by 22% on the $3.5b reported at the end of June 2005. Investments in these 902 investee companies were reported by 229 vehicles (210 in 2004–05). The increase in the value of investments, derived after exits and other decreases was due mainly to the contribution of new and follow-on investments during 2005–06 ($1.4b, up 37% on 2004–05).

During 2005–06, the net value of all exits through trade sales, IPOs and buybacks amounted to $721m.

KEY FIGURES 2005–06
continued

The selection of investee companies (into which capital is invested) was an intensive process. The total of 157 venture capital managers reviewed 6,688 potential new investments during 2005–06 and conducted further analysis on 724 of those, with 201 being sponsored for VC&LSPE. These managers spent a total of 186,000 hours with the investee companies (163,000 in 2004–05), advising and assisting in the development of the enterprises.

The following diagram summarises key findings for VC&LSPE at June 2006.



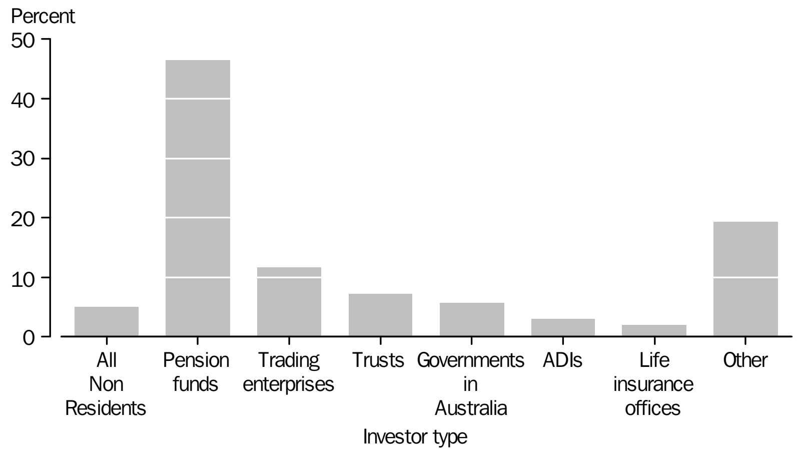
INVESTORS

VC&LSPE investors are generally sophisticated individual investors or organisations such as pension (superannuation) funds. Investors invest in VC&LSPE vehicles which are mainly organised in the form of either trust funds or corporations. VC&LSPE trust funds obtain investment commitments from investors, which are drawn down over time. They must return capital plus profit (minus loss) as investments are realised. On the other hand, VC&LSPE vehicles organised as corporations are able to choose to make distributions to investors (including parent corporations) or to retain capital for further investment. Investors in corporations may liquidate their investment by sale on the secondary market. Drawn down funding from investors in corporations can be estimated from paid up capital and borrowings, but the ability of corporations to reinvest retained earnings and the tradeability of investor equity in corporations makes analysis of investment by type of investor difficult.

VC&LSPE investment vehicles include both direct VC&LSPE investment vehicles which place investments directly in investee companies, and fund of funds investment vehicles which mainly place investments with direct VC&LSPE investment vehicles. At end of June 2006, $10.9b was committed to direct VC&LSPE investment vehicles, $1.4b of which was committed via fund of funds investment vehicles. At end of June 2006, $4.1b of commitments to direct VC&LSPE investment vehicles were unused, $0.7b of which was committed via fund of funds investment vehicles (see table 1 for more details).

The following graph analyses drawdown investment for VC&LSPE investors by type of investor. The largest source of funds in terms of drawdowns for VC&LSPE vehicles was domestic pension funds, with 46% of total drawdowns (down from 47% at June 2005).

DRAWDOWN FROM INVESTORS BY INVESTOR TYPE, Percentage of total investment in VC&LSPE vehicles, JUNE 2006



VC&LSPE MANAGERS AND INVESTMENT VEHICLES

The VC&LSPE manager is generally a skilled business person and financial analyst. The gathering of commitments from investors takes a considerable amount of time, as does the process of evaluating potential investees. The survey identified 157 active VC&LSPE managers who were managing 229 VC&LSPE investment vehicles. This compares with 140 active managers managing 210 vehicles in 2004–05.

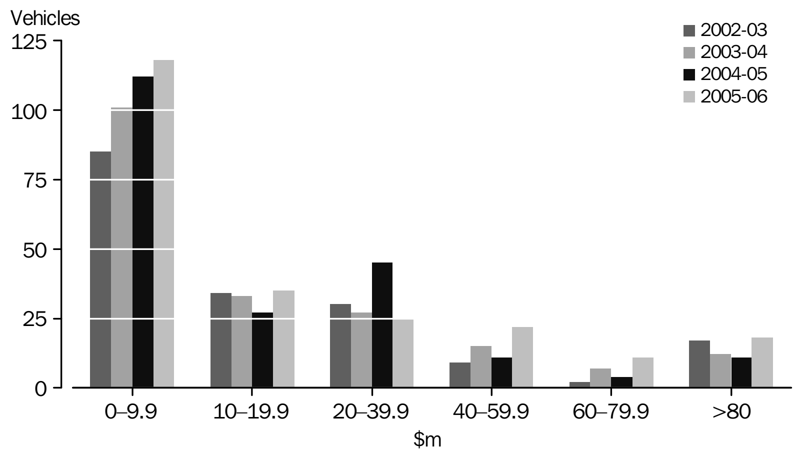
VC&LSPE managers spent 186,000 hours with investee companies in 2005–06 and received income in the form of management fees ($143m). In 2005–06, fund managers spent on average 3.6 days a month per investee company. This compares with 2.5 days in 2004–05 and 3.0 days in 2003–04. The average days spent with investee companies with Retail, Services, and Real estate related activities rose from 2.5 days in 2004-05 to 4.1 days in 2005-06.

VC&LSPE investment vehicles had net assets of $5.8b at June 2006 compared with $4.2b at June 2005 and $3.7b at June 2004.

Most VC&LSPE investment vehicles were either trusts (funds) or corporations. Of the 229 vehicles operating in 2005–06, 112 were companies, and of these, 92 were not listed with the Australian Stock Exchange.

At the end of June 2006, 120 of the 229 VC&LSPE investment vehicles were participating in a government program, an increase on the number of participants in 2005 and 2004. Most of the participating investment vehicles were with the Federal government's Pooled Development Fund (PDF) program.

NUMBER OF INVESTMENT VEHICLES, By value of assets held



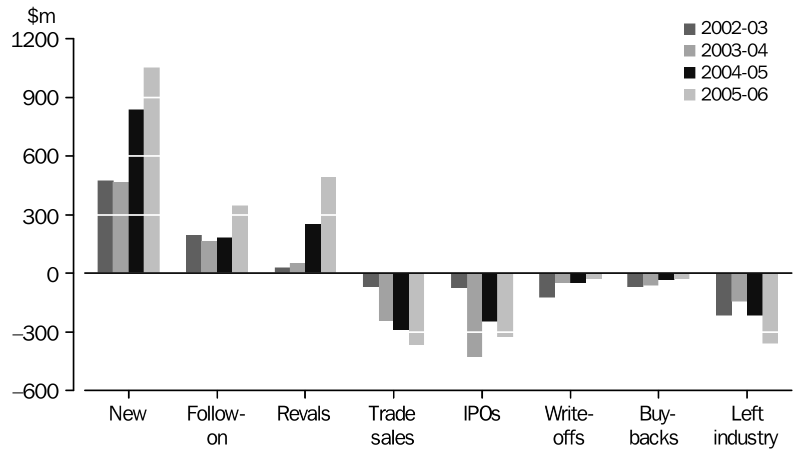
The value of total assets held by VC&LSPE investment vehicles was widely dispersed, from 118 investment vehicles having less than $10m in assets, to 18 with more than $80m in total assets (see the preceding graph).

Table 2 shows the financial flows of VC&LSPE investment vehicles over the survey period. New and follow-on investments by VC&LSPE investment vehicles rose by $378m (37%) in 2005–06 to $1,400m.

VC&LSPE MANAGERS AND INVESTMENT VEHICLES *continued*

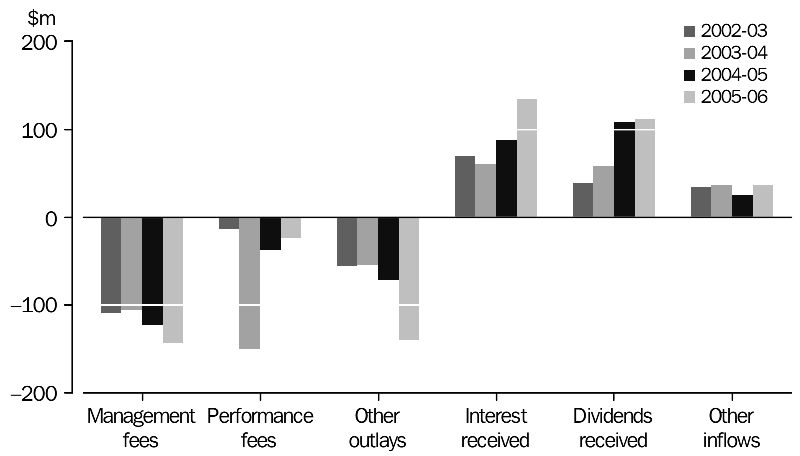
Most return on investment to investees is through exits from investments. The decrease in the investment value due to exits through trade sales, IPOs and buybacks was $721m in 2005–06 (made up of $998m of sale proceeds less $277m profit over the life of the investments). This compares to a fall in investment value of $572m in 2004-05 (made up of $1,043m of sales proceeds less $471m profit over the life of the investments). The value of vehicles that have dropped out of the Australian VC&LSPE industry ($357m in 2005–06) was higher than the level recorded in the previous year.

ADDITIONS AND EXITS TO INVESTMENTS IN INVESTEE COMPANIES



Investment vehicles had total expenditure of $306m during 2005–06, just under half of which was for management fees ($143m, compared to $123m during 2004–05). Total income increased to $283m, with the increase driven mainly by a large increase in interest receipts ($134m in 2005–06 compared to $88m in 2004–05).

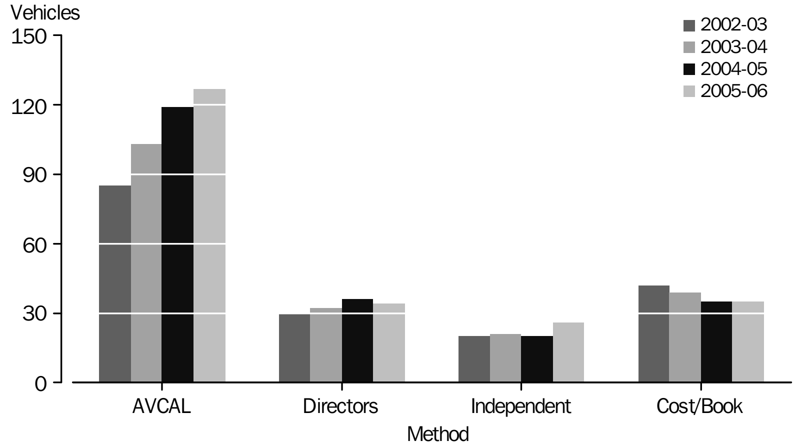
INCOME AND EXPENDITURE OF INVESTMENT VEHICLES



VC&LSPE MANAGERS AND INVESTMENT VEHICLES *continued*

VC&LSPE funds used various valuation methods (refer to paragraph 14 of the Explanatory Notes). The AVCAL method was most frequently used, with 127 vehicles using this method in 2005–06, followed by book value/cost valuation methods (35) and directors' valuation (34).

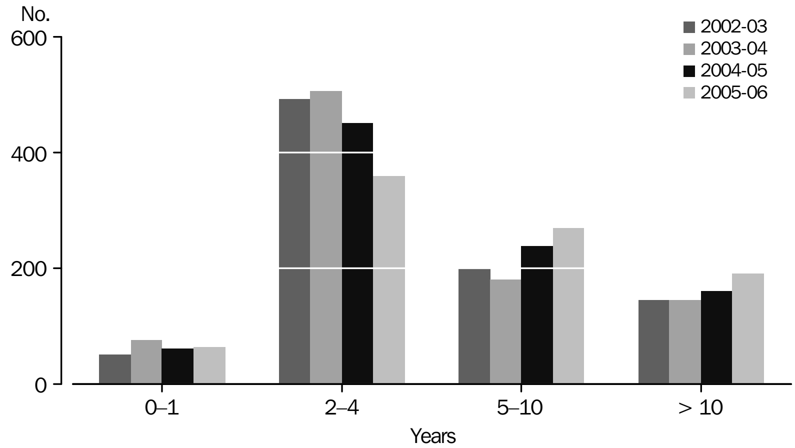
VALUATION METHODS USED, By investment vehicles



INVESTEE COMPANIES

Of the $4,316m that had been invested in the 902 investee companies (deals) at June 2006, $1,053m was invested in new projects during the 2005–06 financial year (up by $214m or 26% on 2004–05), with additional investments in existing projects of $347m (up $164m or 90%). See table 2 for more details.

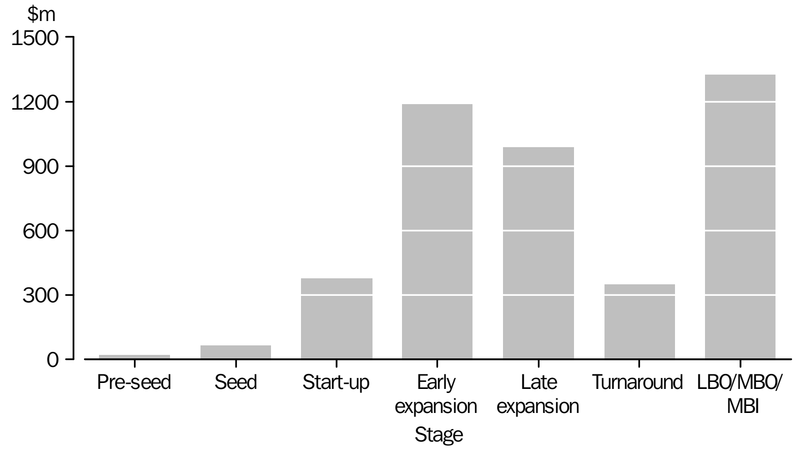
NUMBER OF DEALS, By age of investee company



The preceding graph indicates that in 2005–06, the majority of deals made by VC&LSPE vehicles were with investee companies established for between two and four years (49%), which is in similar proportions to that recorded in previous years. Investee companies in the five to 10 year category accounted for 31% of deals in 2005–06.

INVESTEE COMPANIES *continued*

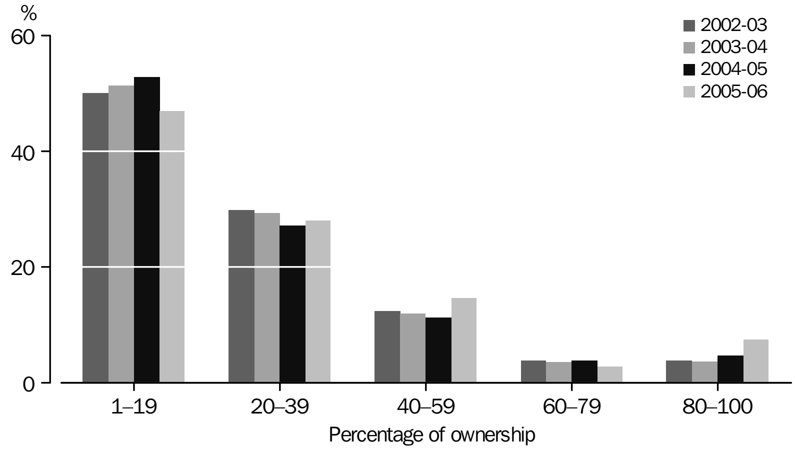
VALUE OF INVESTMENT, By investee stage, 2005–06



See paragraph 12 of the Explanatory Notes for a definition of the VC&LSPE stages referred to in the above graph.

In terms of the current stage of investment, total investments in the LBO/MBO/MBI stage attracted the largest share, with $1,325m or 31% of total value as at the end of June 2006.

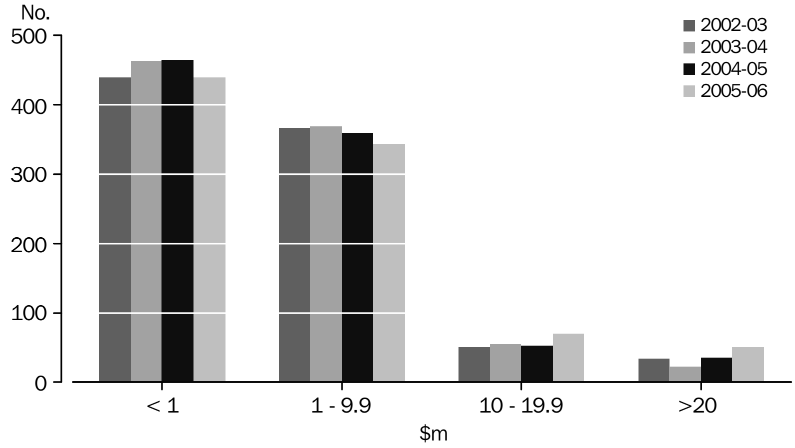
PERCENTAGE OF INVESTEE COMPANY OWNED, By venture capital and later stage private equity vehicle



VC&LSPE arrangements typically do not involve a level of controlling equity by a single VC&LSPE vehicle in investee companies, with most deals having less than 40% ownership by any one investment vehicle, as the above graph illustrates. However, it is worth noting that more than one fund manager may invest in the same investee company or a fund manager may manage more than one vehicle investing in an investee company.

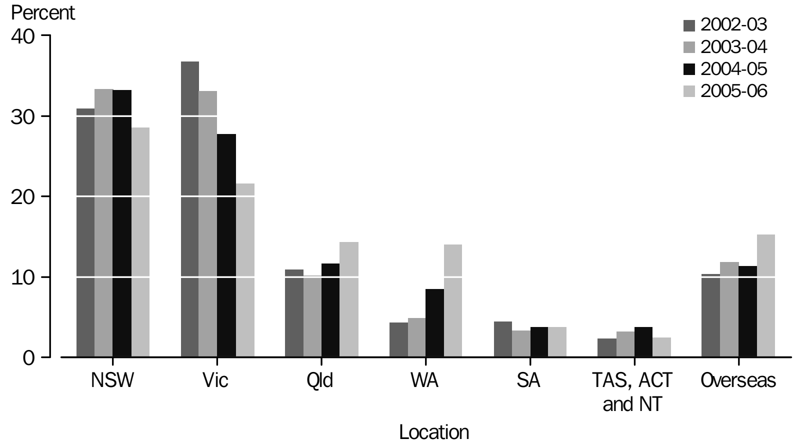
INVESTEE COMPANIES
continued

VALUE OF INVESTMENT, By number of investees



The above graph shows the distribution of the value of investment placed by VC&LSPE managers in individual investee companies. Most deals attracted less than $10m from any one investment vehicle, but the proportion receiving greater than $20m has been steadily increasing over the past three survey years. The number of investees receiving less than $1m in 2005–06 decreased to around the level recorded for 2002–03.

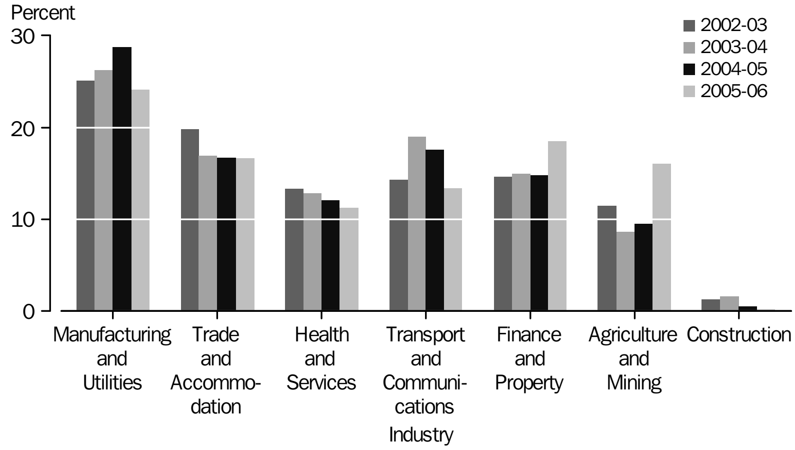
PERCENTAGE OF INVESTMENT VALUE, By location of investee



The above graph indicates that most of the value of VC&LSPE investment in investee companies continued to be invested in investee companies with head offices in NSW and Victoria (with 29% and 22% respectively at June 2006). The current value of investee companies with head offices in NSW increased by $60m compared to 2004–05, while Victoria fell (down $44m) for the third consecutive year. The current value of investments by Australian vehicles in investee companies domiciled overseas remained significant, increasing (up $257m) to $658m in 2005–06.

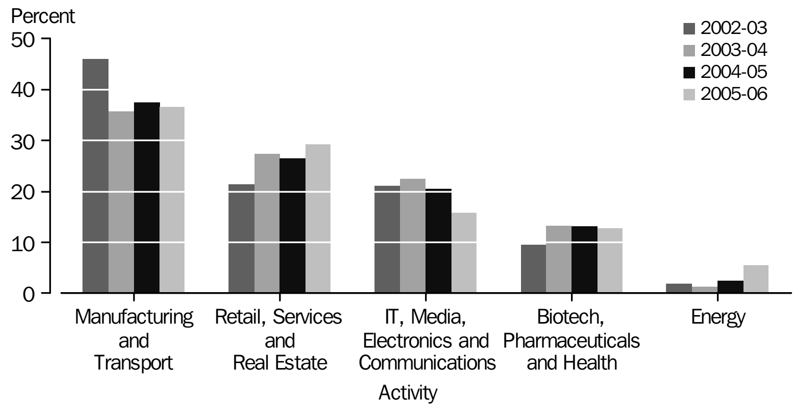
INVESTEE COMPANIES *continued*

PERCENTAGE OF TOTAL INVESTMENT, By industry of investee



VC&LSPE vehicles invested in a wide range of industries. Of the total value of $4,316m invested in 2005–06, Manufacturing and Utilities continued to be the predominant industry of investment, with investments at the end of the year of $1,039m (24% of the total). The current value of investments expressed as a proportion of total investments increased in the Finance and Property industries (up $274m to 18% of total investments), and Agriculture and Mining industries (up $354m to 16% of total investments). All other industries recorded decreases in their percentage of total investment.

PERCENTAGE OF VALUE OF INVESTMENT, By activity of investee



Note: Based on Standard and Poors Activity Classification

When analysed by activity, as defined by the Standard and Poors Activity Classification, the Manufacturing and Transport related activities attracted the largest share of investment, with $1,579m or 37% of total investment for 2005–06. Retail, Services and Real Estate with $1,266m (29%) and IT, Media, Electronics and Communications with $681m (16%) also attracted large shares of the total investments as at the end of June 2006.

1 SOURCE OF FUNDS OF INVESTMENT VEHICLES

	June 2001	June 2002	June 2003	June 2004	June 2005	June 2006
	$m	$m	$m	$m	$m	$m
COMMITMENTS BY INVESTORS						
Funds						
Non-residents						
Pension funds	78	27	27	27	27	71
Other	511	420	550	649	657	619
Residents						
Pension funds	1 819	2 799	3 235	4 346	4 996	5 484
Authorised Deposit-taking Institutions	165	750	679	462	637	244
Trading enterprises	192	631	648	818	1 000	1 389
Governments in Australia	535	431	561	456	781	766
Life insurance offices	290	245	242	161	179	162
Trusts	188	195	174	257	452	719
Other residents	324	720	755	807	1 319	1 462
Not stated(a)	1 220	na	na	na	na	na
Total	***5 322***	***6 218***	***6 871***	***7 983***	***10 048***	***10 916***
Of which, invested through a fund of funds(b)	372	619	662	994	1 193	1 416
DRAWDOWNS FROM INVESTORS						
Funds						
Non-residents						
Pension funds	28	20	20	20	21	69
Other	325	259	396	326	343	271
Residents						
Pension funds	1 078	1 648	1 867	2 246	2 561	3 179
Authorised Deposit-taking Institutions	122	486	421	310	504	202
Trading enterprises	100	442	525	491	460	797
Governments in Australia	206	216	264	262	336	386
Life insurance offices	138	150	162	141	150	138
Trusts	66	103	102	143	226	490
Other residents	174	606	586	653	852	1 311
Not stated(a)	1 220	na	na	na	na	na
Total	***3 457***	***3 930***	***4 343***	***4 592***	***5 453***	***6 843***
Of which, invested through a fund of funds(b)	197	335	390	515	688	731
UNUSED COMMITMENT						
Funds						
Non-residents						
Pension funds	50	7	7	7	6	2
Other	186	161	154	323	314	348
Residents						
Pension funds	741	1 151	1 368	2 100	2 435	2 305
Authorised Deposit-taking Institutions	43	264	258	152	133	42
Trading enterprises	92	189	123	327	540	592
Governments in Australia	329	215	297	194	445	380
Life insurance offices	152	95	80	20	29	24
Trusts	122	92	72	114	226	229
Other residents	150	114	169	154	467	151
Not stated(a)	na	na	na	na	na	na
Total	***1 865***	***2 288***	***2 528***	***3 391***	***4 595***	***4 073***
Of which, invested through a fund of funds(b)	175	284	272	479	505	685

na not available

(a) Detailed source of domestic corporate funding not collected separately in 2000-2001 survey.

(b) Capital sourced from investors which were invested through a fund of funds, into a direct vehicle.

2 INVESTMENT BY VENTURE CAPITAL AND LATER STAGE PRIVATE EQUITY INVESTMENT VEHICLES IN INVESTEE COMPANIES

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
	$m	$m	$m	$m	$m	$m
Investments at beginning of year	2 480	2 729	3 194	3 338	3 092	3 532
Additions to investment value during year						
New vehicles and projects	685	586	472	465	839	1 053
Follow-on investments	202	314	194	162	183	347
Unrealised gains in investee companies (includes revaluations)	–84	73	29	50	254	492
Exits and other decreases in value (at balance sheet valuations)						
Trade sales	87	135	69	241	291	367
Initial public offers	171	120	76	428	246	323
Buybacks	21	10	67	60	35	31
Write-offs	72	71	123	50	49	30
Left the industry	203	172	216	144	215	357
Investments at end of year	2 729	3 194	3 338	3 092	3 532	4 316

3 NEW AND FOLLOW-ON INVESTMENT IN INVESTEE COMPANIES, By stage of investee company(a)

	2004–05		2005–06	
Stage of investee company	*no.*	*$m*	*no.*	*$m*
New investments during the year				
Pre-seed	na	na	26	5
Seed	41	19	25	30
Start-up	na	na	42	76
Early	55	137	na	na
Early Expansion	na	na	49	149
Expansion	45	257	na	na
Late Expansion	na	na	28	218
Turnaround	6	78	6	182
Late	5	45	na	na
LBO/MBO/MBI	24	303	25	393
Total	***176***	***839***	***201***	***1 053***
Follow-on investments during the year				
Pre-seed	na	na	7	3
Seed	24	5	19	15
Start-up	na	na	44	82
Early	109	80	na	na
Early Expansion	na	na	83	83
Expansion	63	63	na	na
Late Expansion	na	na	33	68
Turnaround	10	5	8	28
Late	14	4	na	na
LBO/MBO/MBI	23	26	20	68
Total	***243***	***183***	***214***	***347***

na not available
(a) A new stage of development classification was introduced in the 2005-06 survey.

4

SOURCE OF FUNDS OF INVESTMENT VEHICLES, By investment vehicles' preferred stage of investment, 2005–06

	Earlier stages(a)	*Expansion*	*Later stages*(a)
	$m	$m	$m
COMMITMENTS BY INVESTORS			
Funds			
Non-residents			
Pension funds	np	43	np
Other	83	113	423
Residents			
Pension funds	656	1 995	2 833
Authorised Deposit-taking Institutions	17	144	83
Trading enterprises	486	556	347
Governments in Australia	314	220	232
Life insurance offices	np	22	np
Trusts	178	349	192
Other residents	201	373	888
Total	***1 960***	***3 814***	***5 140***
Of which, invested through a fund of funds(b)	163	334	920
DRAWDOWNS FROM INVESTORS			
Funds			
Non-residents			
Pension funds	np	42	np
Other	52	68	153
Residents			
Pension funds	336	1 278	1 565
Authorised Deposit-taking Institutions	np	117	np
Trading enterprises	329	273	195
Governments in Australia	177	132	77
Life insurance offices	np	13	np
Trusts	np	238	np
Other residents	189	326	796
Total	***1 257***	***2 486***	***3 100***
Of which, invested through a fund of funds(b)	115	206	409
UNUSED COMMITMENT			
Funds			
Non-residents			
Pension funds	np	1	np
Other	31	46	271
Residents			
Pension funds	320	717	1 268
Authorised Deposit-taking Institutions	np	27	np
Trading enterprises	157	282	152
Governments in Australia	137	88	155
Life insurance offices	np	9	np
Trusts	np	111	np
Other residents	12	47	92
Total	***703***	***1 328***	***2 040***
Of which, invested through a fund of funds(b)	47	127	511

np not available for publication but included in totals where applicable, unless otherwise indicated

(a) Refer to paragraph 12 of the Explanatory Notes.

(b) Capital sourced from investors which were invested through a fund of funds, into a direct vehicle.

5 TOTAL COMMITMENTS BY INVESTMENT VEHICLES, By investment vehicles' preferred stage of investment, By current stage of development of investee companies, 2005–06

	INVESTEE COMPANIES' CURRENT STAGE OF DEVELOPMENT		
	Earlier stages(a)	*Expansion*	*Later stages*(a)
Investment vehicles' preferred stage of investment	$m	$m	$m
Earlier stages(a)	281	320	67
Expansion	152	1 043	399
Later stages(a)	84	736	982

(a) Refer to paragrah 12 of the Explanatory Notes.

6 TOTAL COMMITMENTS BY INVESTMENT VEHICLES, By current stage of development of investee companies, By stage of development when original investment made, 2005–06

	INVESTEE COMPANIES' CURRENT STAGE OF DEVELOPMENT		
	Earlier stages(a)	*Expansion*	*Later stages*(a)
Investee company stage of development when original investment made	$m	$m	$m
Earlier stages(a)	518	213	29
Expansion	—	1 886	124
Later stages(a)	—	—	1 294

— nil or rounded to zero (including null cells)
(a) Refer to paragraph 12 of the Explanatory Notes.

EXPLANATORY NOTES

THE SURVEY

1 This publication contains venture capital and later stage private equity (VC&LSPE) statistics for the period 2001–02 to 2005–06. 1999–2000 data are also available in the supplementary spreadsheets available on the ABS website <http://www.abs.gov.au>.

2 The VC&LSPE survey is partly funded by the Department of Industry, Tourism and Resources. The survey was first conducted for the 1999–2000 reference period, with results released as a Special Article in the Managed Funds, Australia (ABS cat. no. 5655.0) December quarter 2000 issue. Additional data were incorporated in a subsequent release on the ABS Web site <http://www.abs.gov.au>.

3 The population of investment managers included in the survey was constructed from lists of participants in government programs (including Pooled Development Fund, Innovation Investment Fund, Venture Capital Limited Partnerships, Information and Communications Technology Incubator Program), membership of the Australian Private Equity and Venture Capital Association Ltd (AVCAL), the Australian Venture Capital Guide, business directories and venture capital journals. The survey is, in fact, a census of VC&LSPE vehicles domiciled in Australia that were able to be identified by ABS. The investment managers reported on behalf of the VC&LSPE investment vehicles they controlled.

SCOPE AND COVERAGE

4 The VC&LSPE survey aimed to cover all investments by resident VC&LSPE vehicles in enterprises that met the following definition of venture capital and later stage private equity.

5 Venture capital was defined as high risk private equity capital for typically new, innovative or fast growing unlisted companies. A venture capital investment is usually a short to medium-term investment with a divestment strategy with the intended return on investment mainly in the form of capital gains (rather than long-term investment involving regular income streams).

6 Later stage private equity was defined as investment in companies in later stages of development, as well as investment in underperforming companies. These companies are still being established, the risks are still high and investors have a divestment strategy with the intended return on investment mainly in the form of capital gains (rather than long-term investment involving regular income streams).

7 As VC&LSPE vehicles invest in a business, they become part owners and may require a seat on the company's board of directors. They tend to take a minority share in the company and usually do not take day to day control, but the managers provide support and advice on a range of management and technical issues to assist the company to develop its full potential.

8 Fund of funds which invest mainly in other VC&LSPE funds are also included in the scope of this survey. This type of fund pools investments from a diverse range of investors and mainly places its investments with other VC&LSPE funds who then invest in unlisted companies. Direct investments in unlisted companies may occur, but are typically undertaken as a co-investment with another fund manager who manages the investment.

9 Organisations which were not considered VC&LSPE funds for the purposes of this survey included organisations with a principal activity of providing non-financial support to seed industries. For instance, incubators set up by either a state government or by way of a Commonwealth grant facilitate seed enterprises in their efforts to get the business into a position of growth. The incubator may offer grants, seed funding, reduced office rental, mentors, marketing contacts and access to office equipment. Only those incubators with significant equity investment in seed enterprises were included in this survey.

SCOPE AND COVERAGE *continued*

10 Investments by non-resident VC&LSPE funds in Australian investee companies are considered out of scope of this survey. In addition, non-institutional investors such as business angels (private individuals investing in private equity) were not included.

FURTHER CHARACTERISTICS

11 The following are typical characteristics of VC&LSPE activities.

- The VC&LSPE industry receives a large number of approaches from individuals and groups of individuals who have what they believe to be good business propositions.
- A small or a specialist fund manager will receive between 5 and 20 approaches each month for funding; of those 2 or 3 may receive more thorough examination, and out of those perhaps 1 per quarter will get funding.
- The medium sized organisations will receive anything from 20 to 400 approaches in a month. Even though they are medium in size by the amount of capital they are raising and disbursing, their offices typically have a small number of highly trained staff. There may be 5 or 10 approaches that are investigated thoroughly or undergo due diligence. From these perhaps 2 or 3 will receive funding in a quarter.
- There are a small number of organisations that are large and receive upwards of 400 approaches a month. These offices are still run with a small number of highly trained and focussed staff. The culling process is very similar to the medium sized organisations, with perhaps 5 to 7 enterprises receiving funding in any one quarter.

12 The following describes various stages at which a venture capital vehicle may make investments.

- Pre-seed, seed, start-up or early (earlier stages): product is in development, testing or pilot production. Investee companies may not be fully operational and may not be generating revenue.
- Early expansion, expansion or late expansion: Product is in the market, the investee company has significant revenue growth and may be approaching or at, profitable operating levels.
- Turnaround, late, buy-out or sale (later stages): A mature investee company that may require financing for turnarounds (because of flat or declining revenue), consolidation and sales.

13 The following definitions of the type of capital sourced from investors are used in this survey.

- Commitments from investors: capital pledged by investors, representing the maximum amount that the fund may drawdown from investors. Committed capital shown in table 1 of this publication is cumulative.
- Drawdowns from investors: for funds, this represents cumulative called capital. This is the amount of capital committed by investors that has actually transferred to a venture capital fund in aggregate for the life of the fund, and is also known as paid-in capital. Calls made, but not yet received, are excluded. Capital returned to investors that is available to be called from investors is excluded from the balance at the end of the financial year. For companies, drawdowns from investors represents paid-up capital as at the end of the year.

ACCOUNTING BASIS

14 The VC&LSPE industry uses a variety of valuation methods for the equity they hold in the investee companies. The valuation methods may vary from one organisation to the other. However, the AVCAL method (described below) is widely used in reporting the value of the private equity holdings.

Methods of valuation

ASSETS VALUED BY THE AVCAL METHOD

15 This method is well documented by AVCAL and Venture Economics and states that all assets should be valued at cost for the first 12 months and thereafter valued at market value or Directors' Valuation.

Methods of valuation continued

ASSETS VALUED BY DIRECTORS' VALUATION

16 Assets may be valued by the Directors taking care to undertake valuations with integrity and based on a common sense approach. This will need to be logically cohesive and subject to a rigorous review procedure under the direction of senior management and possibly non-executive Directors.

ASSETS VALUED BY INDEPENDENT VALUATION

17 The fund may choose to engage a registered independent valuer who will then value the asset based on the current market movements and environment.

ASSETS VALUED AT COST/BOOK VALUE

18 This method is preferred at least for the first 12 months and it is the cost of the asset at time of purchase by the Fund.

EFFECTS OF ROUNDING

19 Any discrepancies between totals and sums of components in the tables are caused by rounding.

RELATED STATISTICS

20 Related ABS publications which may also be of interest include:

- *Australian System of National Accounts* (cat. no. 5204.0)—issued annually;
- *Australian National Accounts: National Income, Expenditure and Product* (cat. no. 5206.0)—issued quarterly;
- *Australian National Accounts: Concepts, Sources and Methods* (cat. no. 5216.0)—latest issue, 2000;
- *Australian National Accounts: Financial Accounts* (cat. no. 5232.0)—issued quarterly;
- *Managed Funds, Australia* (cat. no. 5655.0)—issued quarterly;
- *Standard Economic Sector Classifications of Australia (SESCA) 2002* (cat. no. 1218.0)—latest issue, 2002.

21 Non-ABS data sources:

- Australian Venture Capital Association Limited web site <http://www.avcal.com.au>
- Venture Economics web site <http://www.ventureeconomics.com>
- Australian Venture Capital Guide 2005, Australian Venture Capital Journal; web site contact <http://www.vcjournal.com.au>

22 Data available on request:
The ABS may be able to provide additional data for this survey on request.

ABBREVIATIONS

$b	billion (thousand million) dollars
$m	million dollars
ADI	Authorised Deposit-taking Institution
ANZSIC	Australian and New Zealand Standard Industrial Classification
AVCAL	Australian Venture Capital Association Limited
IPO	Initial Public Offer
IT	information technology
LBO	leveraged buyout
MBI	management buyin
MBO	management buyout

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